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SAUDI ARABIA: The debate in the Saudi Government over the level of oil production is apparently still going on. King Faysal, who has been signaling in recent months that he considers Western access to Saudi oil to be linked to US policy on Arab-Israeli matters, will ultimately determine the production schedule.

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A wide range of opinion on production levels is represented in senior government ranks. Some, [redacted] favor a relatively unrestricted increase in production until 1980; others favor limiting production increases to between 5 and 10 percent per year. A freeze or even a cutback in production is being recommended by still others involved in oil and economic development matters. This group argues that there has been no political advantage to Saudi Arabia in meeting Western oil needs and that increased production makes little sense in economic terms. They contend [redacted] that the government cannot effectively utilize the revenue it receives from current oil production levels. A Saudi decision on future production levels is probably still some weeks away.

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EASTERN EUROPE - USSR: Soviet efforts at the recent Crimea summit to impose a greater degree of political and economic cooperation among the bloc countries have underscored differences between Moscow and Bucharest.

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Romania favors a formulation that would rule out the use of force to change existing frontiers, but would leave open the possibility of future border adjustments by mutual consent. This formulation is designed to protect Bucharest's interest in avoiding permanent foreclosure of its claims to northern Bukovina and Bessarabia, which are now part of the USSR.

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Bucharest's sensitivity to Soviet plans for closer coordination of the member states' economies is always near the surface and dates back to Khrushchev's plan for "supranational economic integration" in the early 1960s. Under this scheme, Romania's industrial development would have been virtually stopped, and Romania would have been forced to specialize in agriculture. Bucharest balked at the plan, recognizing that without a degree of

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freedom to develop "mutually advantageous economic relations" with all countries it would lack the base from which to move toward a more independent path in foreign affairs. Bucharest's rejection of "supranational integration" prompted the so-called Romanian "declaration of independence" of April 1964. The Romanians have since resisted Soviet pressure to achieve "economic integration."

Renewed Soviet efforts to achieve increased integration may already be under way. Polish Premier Jaroszewicz and Warsaw's leading CEMA specialist, Deputy Premier Jagielski, went to Moscow on 15 August to discuss "basic trends" for "coordination and development of the national economies of the USSR and Poland" with Premier Kosygin. Jaroszewicz' visit, following Hungarian Premier Fock's trip to Warsaw on 9-11 August, suggests that the cooperation proposals may also concern Hungary.

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**Changes in the Dollar Value of Foreign Currencies Since 19 March**  
*(in percent)*

	16 August	9 August	27 July	11 July	6 July
Mark	+13.9	+19.0	+23.1	+17.6	+25.1
French franc	+ 4.8	+ 9.5	+12.5	+11.6	+19.9
Sterling	0.0	+ 0.8	+ 1.9	+ 3.6	+ 3.9
Yen	- 0.1	- 0.1	- 0.2	+ 0.2	+ 1.1



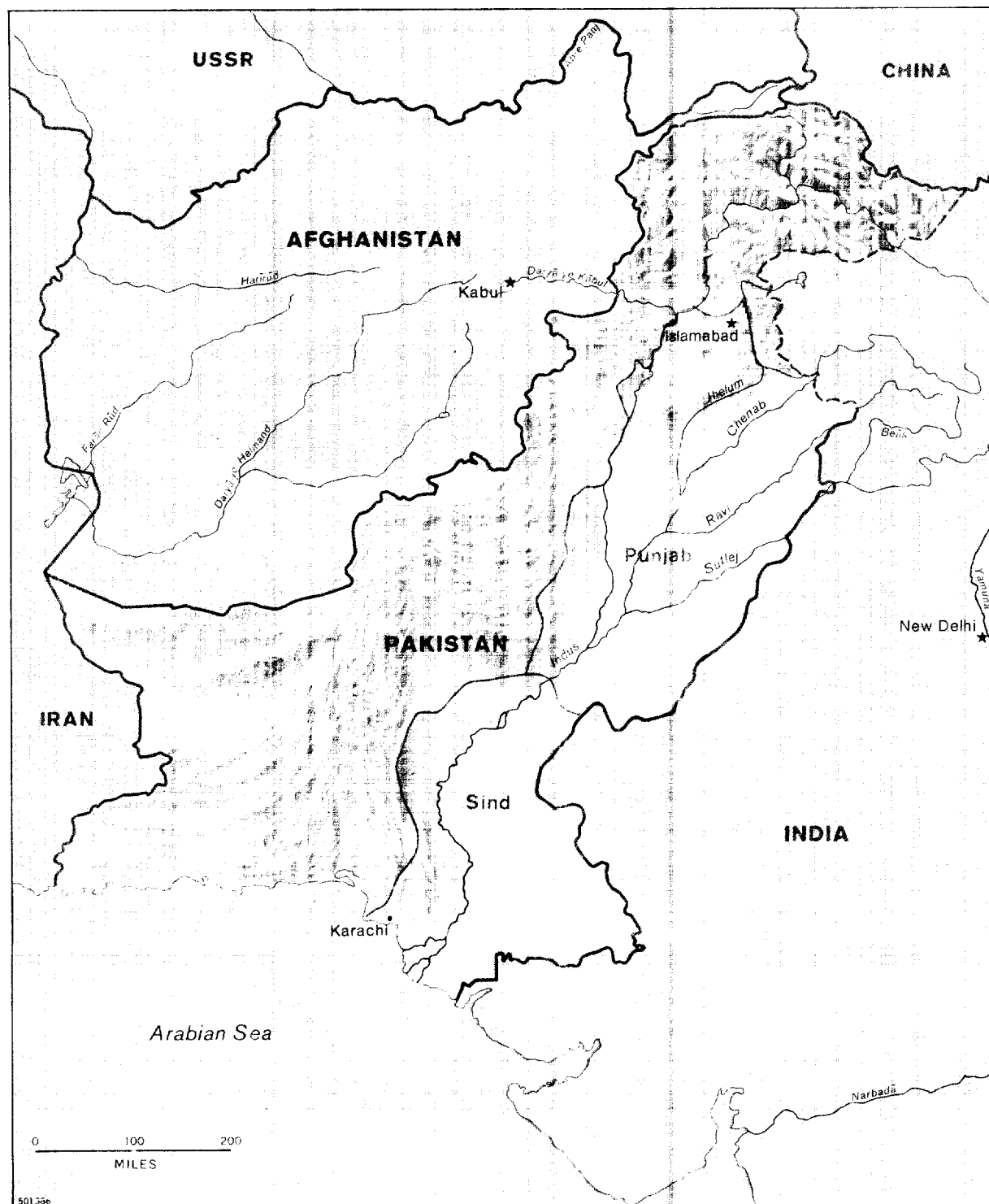
INTERNATIONAL MONETARY DEVELOPMENTS: The dollar strengthened markedly yesterday following announcement of the first quarterly US balance-of-payments surplus since 1969. According to German foreign exchange dealers, sentiment toward the dollar in foreign exchange markets was gradually changing even before the new data were revealed. The dealers report that customers who have been short on the dollar for a long time are now anxious to cover their positions before the dollar rises further.

Despite the dollar's current strength, skepticism persists about its prospects relative to the mark and other European currencies. In Germany, dealers feel that over the medium term the dollar is now somewhat overvalued relative to the mark. West Germany's domestic monetary situation will probably tighten further in late September when heavy tax payments are due. Moreover, if forthcoming German wage settlements turn out to be overly inflationary, the Bundesbank may raise interest rates, thereby even further strengthening the mark.

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PAKISTAN: Islamabad has requested emergency relief assistance following extensive flooding, described as the worst in more than 20 years. The Jhelum, Chenab, and Ravi rivers in the north reportedly have reached high flood stage and the Indus and Sutlej rivers are in medium flood stage. The government estimates that some 20 million people in Punjab Province have been affected and that 2.8 million acres and 2,830 villages have been flooded. Crops on 600,000 acres have been severely damaged and an estimated 1 million tons of food (primarily wheat and sugar) stored in the area may have been damaged. The death toll thus far is about 100 persons. Further flooding is expected in Sind Province as high waters move south.

While estimates of total crop damage are not yet available, about 6 percent of the area traditionally planted to summer crops--primarily cotton, rice, and sugarcane--appears to have been severely hit. Islamabad has not estimated how much of the affected food stocks are salvageable. The Bhutto government has requested foreign countries to provide food and medical supplies, helicopters and small boats for rescue operations, construction materials, seed, fertilizer, and financial assistance. [REDACTED]

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PAKISTAN: The arrest of the three most important opposition leaders in Baluchistan Province could lead to another confrontation between Prime Minister Bhutto and opposition parties.

Since February, when he dismissed the opposition-controlled provincial government, Bhutto has been unsuccessfully maneuvering for a political accommodation that would give his supporters a majority in the provincial assembly. The reported arrest of the former governor, the former chief minister, and the provincial president of the National Awami Party (NAP)--the province's largest--appears to signal an end to this effort.

In the past, Bhutto has alternated between pressure tactics and attempts at compromise. Several previous confrontations have been resolved at the last minute.

It is not yet clear who ordered the arrests. Bhutto may have done so to forestall the installation of an opposition government, likely under the new constitution that came into effect this week. The governor could, however, have acted on his own, partly to settle old scores.

Two of those arrested are also chiefs of major tribes, and a significant increase in the hitherto sporadic violence in the province--which borders Afghanistan and Iran--is a distinct possibility. The national leadership of the NAP, and probably other opposition groups as well, may feel a strong response to Bhutto is necessary. In Afghanistan, the new government--already predisposed to interfere in Pakistan's frontier provinces--might also feel impelled to take some action. [REDACTED]

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AFGHANISTAN: A month after the military coup that brought President Daud to power, his government has accomplished little and decision-making, except for routine matters, is nearly paralyzed. The US Embassy foresees at least several months of stagnation and more than normal inefficiency and believes that there is enough instability in the situation to make the eventual outcome for Daud and Afghanistan uncertain.

The new rulers have been spending most of their time trying to consolidate their power, and backstage maneuvering among them is intense. Daud appears to be strengthening his position, but the outcome of his disagreements with the junior officers who spearheaded the coup is unpredictable.

Senior and middle level officials are lying low and refusing to make any decisions that might be regarded as controversial. US AID advisers report that officials with whom they deal are sometimes completely uninformed as to what course the government will pursue.

No economic or development policies have been announced. Either the government has not yet focused on this basic problem or is unable to agree on what should be done. The US Embassy doubts that some members of the cabinet are capable of implementing policies even if they had been decided. [REDACTED]

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Libya: Three members of the Oasis Group--Marathon, Continental, and Amerada-Hess--have agreed to Tripoli's demand for 51-percent nationalization. The terms are similar to those agreed to by Occidental last Saturday; compensation for company assets is to be based on net book value and the companies will buy back the government's share of the nationalized oil at \$4.90 per barrel. Shell, the fourth partner in Oasis, has not agreed to the Libyan demand. [REDACTED]

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Japan-China: A five-member Chinese delegation begins talks today in Tokyo on a trade agreement. Japanese press sources predict an agreement may be concluded by the end of August. It would be the first accord reached since diplomatic relations were established nearly a year ago. [REDACTED]

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

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